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PASS TREASURY FOR OASIA/ICB/VIMAL ATUKORALA
TREASURY ALSO FOR OCC/EILEEN SIEGEL
TREASURY ALSO PASS FEDERAL RESERVE
USDOC PASS TO OITA
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SUBJECT: THE VIENNA STOCK EXCHANGE - A BOOM THAT COULD
LAST

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Summary

11. The Vienna Stock Exchange (VSE) is enjoying an extended boom phase. The VSE is up 51% in 2005, 219% over the period 2003 to 2005, and 242% from the 2001-2005 period. The VSE has been one of the best performing exchanges worldwide. On February 21, 2006, the Austrian Traded Index (ATX) hit a new all-time high -- up 13% from January 1. Foreign investment firms are a major component of the VSE, representing some 54.5% of trading volume. Despite the stock market boom, only about 7% of Austrians hold shares. The boom should continue, as most of the factors that contributed to current growth are still present: strong blue chip fundamentals; favorable price-earnings ratios; anticipated privatizations; and heavy exposure in the high growth areas of Southeastern Europe and Central and Eastern Europe (SEE/CEE). The VSE hopes to form a broader "Central European Stock Exchange" alliance with several SEE/CEE exchanges, but the Warsaw Stock Exchange's recent decision not to participate in the VSE alliance represented a major setback. End Summary.

Vienna Stock Exchange - New Records in 2005 and 2006

12. In 2005, the Vienna Stock Exchange (VSE) boomed as one of the best performing exchanges worldwide. In June 2005, the Austrian Traded Index (ATX), which represents the continuously traded blue chips with the highest liquidity and market capitalization, for the first time surpassed 3,000 points. This came just one year after it had surpassed the 2,000 point mark in July 2004. At the end of 2005, it reached a new all-time high of 3,677.03 and closed 50.8% higher than at the end of 2004. The ATX has continued to register impressive gains, breaking through the 4,000 mark on January 30 and reaching another new all-time high on February 21 at 4,158.59. Since January 1, the VSE has been up 13%, and it has outpaced the Dow Jones Industrial Average index of New York Stock Exchange (up 3.9% since January 1) and the blue-chip index (DAX) of the German Stock Exchange group (up 7.3%).

13. Except for a small boom in 1997/98, the VSE experienced lackluster growth for most of the post-World War II period. However, in 2001, growth began to pick up noticeably. The VSE entered a boom phase in 2003. A

comparison of the ATX with major stock markets underlines the VSE's top performance in 2005 and over the last 3-5 years. In 2005, the ATX rose 51%, the Japanese Nikkei-225 index 40%, the DAX 27% and London's FTSE-100 index 16%, while the Dow Jones was flat (-0.6%). During 2003-2005, the ATX rose 219%, the DAX 88% and the Dow Jones 29%. Over the last five years, the ATX rose 242%, the DAX dropped 15%, and the Dow Jones was flat(-0.6%).

Market Capitalization Triples in 3 Years

¶4. At year-end 2005, the market capitalization of listed domestic shares reached Euro 105.0 billion (\$131.2 billion), equal to 43% of GDP. Market capitalization was thus up 66% from year-end 2004 and more than three times as high as at year-end 2002. The average dividend yield for domestic shares in 2005 was 1.89%. The VSE lists 83 domestic shares, 13 foreign shares, and 620 participation certificates, dividend rights certificates, and warrants. In 2005, the VSE recorded six new listings of domestic shares, which represented a market capitalization of Euro 6.2 billion (\$7.8 billion). The largest listing was that of Raiffeisen International (RIAG), a holding of Raiffeisen Zentralbank (RZB), Austria's third largest banking group. The RIAG listing was Austria's largest IPO ever and stemmed from RZB's strategy of outsourcing its significant business in Southeastern Europe and Central and Eastern Europe (SEE/CEE) to RIAG.

Austrians Still Not a Nation of Shareholders

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¶5. Despite the stock market boom, only about 7% of Austrians hold shares. Savings accounts are still the preferred investment vehicle, although interest yields in recent years have often not kept pace with the inflation rate. Foreign investment firms have also discovered the VSE. At year-end 2005, international members accounted for some 54.5% of trading volume. Only six years ago, the share of foreign members in total trading volume was practically zero.

Can the Boom Continue?

¶6. Many of the factors that contributed to VSE's rapid growth are still relevant, so there is reason to expect the boom could continue. Michael Buhl, VSE Management Board Member, argues that because 80% of ATX companies are active in SEE/CEE, dynamic economic growth in the region will continue to propel the VSE. The impressive blue chips that dominate the VSE seem to have continued potential. Price-earnings ratios are still favorable. Domestically, there exists considerable potential from the untapped savings of private Austrian investors. Austria has enormous IPO potential and investors expect interesting new listings, as the GoA continues with ongoing privatizations. For example, the GoA plans an IPO for the state postal company in mid-2005.

The Vienna Stock Exchange's Internationalization Efforts

¶7. The VSE initiated a program of "internationalization" in 1999, when it connected its cash market to Xetra, the Frankfurt Stock Exchange's electronic trading system. In March 2005, an Austrian consortium, led by the VSE, acquired a majority share in the Budapest Stock Exchange (BSE). The BSE acquisition signaled the VSE's initial

efforts to form a broader "Central European Stock Exchange" alliance with several SEE/CEE exchanges (reftels). However, the Warsaw Stock Exchange recently announced it would not participate in the alliance. The VSE is still pursuing a regional alliance, signing a cooperation agreement with the Zagreb Stock Exchange in December 2005. Since February 15, the VSE has published a Southeast Europe Traded Index (SETX), which contains the 15 largest companies listed on the stock exchanges of Bucharest, Ljubljana, Zagreb and Sofia. The VSE will closely monitor the plans of the German Stock Exchange to merge with Euronext.

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